ACCOUNTANCY

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PROFESSIONAL NOTES

Tax-Free Income

It is beyond dispute that the clauses in the Finance Bill relating to tax-free income will afford a measure of much-needed relief in a large number of cases. The members who took part in the debate on the Committee stage were unanimous in asserting that the present exceptional rates of income tax and sur-tax had created a position which necessitated legislative action, but opinion was sharply divided on where the boundaries of the clauses should be drawn. It was strongly urged that henceforward all such arrangements should be void, an attractively simple proposition in theory but replete with practical difficulties, as the Solicitor-General was able to demonstrate. Sir William Jowitt explained that it was finally decided to adopt as the guiding principle that pre-war contracts should be modified to the extent that was most likely to make the result, under present conditions, what the contractor would have said had he been alive to-day and aware of existing circumstances. It is, perhaps, as well that tongues long silent cannot add to the clamour of controversy which will long centre round the issue. Since one of the avowed purposes of the onerous rates of direct taxation is to limit spending capacity, it seems logical that the legislature should attempt to ensure that this effect should be experienced as generally and as evenly as possible.

Annuities and Preference Dividends

Speaking generally, it is probable that the resulting readjustments will operate more equitably in relation to wills and settlements. Admittedly the prior charge tax-free annuitant will suffer and the other persons interested in the income will benefit, but it is equally true to assert the reverse and say that the persons in the second class will now be relieved of a double burden that could not have been contemplated by the testator or settlor at the time the disposition was made. Much discussion occurred on the difficult subject of tax-free preference dividends. The line of reasoning leading to exclusion seems broadly to have been that the basis originally laid down for the division of the pool of profits of a company between its members is constantly reaffirmed by changes in the personnel of the membership due to transfers of shares. It is improbable that many persons could be found who have secured immunity from increased taxation by deriving the whole of their income from shares of this limited class.

Schedule E Payments

Not a word was said in opposition to the principle of the second clause relating to tax-free salaries, pensions and remuneration assessable under Schedule E. It may be that undue prominence was given to tax-free remuneration to directors and managing

directors, but such criticism as was expressed made the Government's case appear altogether unanswerable. The Chancellor undertook to consult the President of the Board of Trade as to the desirability of some amendment of the Companies Act requiring the more explicit disclosure of the true burden of directorial remuneration. To refrain from stating such remuneration in simple figures, giving instead one factor in an implied formula, cannot be designed to assist ready comprehension of the reality by the general body of the investing public.

Close study of the wording of the clauses evokes admiration for the ingenuity of the Parliamentary draftsmen, and the issue of an explanatory memorandum (Command 6283) is most welcome. No one who may be concerned with the interpretation of the clauses should be without this document. It is a matter for regret that a considerable burden of additional work should be thrown on the legal and accountancy professions at a time when the flood of emergency legislation is already overstraining their restricted resources. The debate in the House left the whole issue open to further consideration and the form of the clauses reinforces the assumption that more will be heard of it in the future. While effective prohibition of tax-free payments is probably impossible in wills or settlements, in other fields the difficulties may not be found insuperable, and the Courts could give a useful lead by departing from hoary precedent in the form of the orders for payment of alimony and similar matters.

Institute of Chartered Accountants

The Council of the Institute of Chartered Accountants re-elected as President for the ensuing year Mr. C. J. G. Palmour, London, and as Vice-President Mr. Tom Walton, Manchester. This is the fourth successive year in which Mr. Palmour and Mr. Walton have held office. In addition to his work as President, Mr. Palmour has carried out the onerous duties of chairman of the Committee of representatives of the principal accountancy bodies which has dealt with problems arising from the schedule of reserved occupations as affecting accountancy. We desire to acknowledge the valuable services which Mr. Palmour has rendered to the profession in that capacity.

Solicitors' Accounts

The Master of the Rolls has now approved the new rules made by the Law Society, substituting new rules for Rules 4 and 5 of the Solicitors' Accounts Rules, 1935. These deal with sums which may be drawn from a client account and sums which need not be paid in. The amendments were summarised on page 126 of our April issue.

Coupons

" If the production of twenty-six margarine coupons is made a condition precedent to the purchase of a suit of clothes, in what way will this regulation affect the economic life of the country? " This is not an extract from a past or future examination paper, but the question opens up a train of thought which has boundless possibilities for debating purposes. But the clothing rationing scheme is not merely a subject for debate but a practical fact which affects the comfort of the whole population. Rationing is necessary to ensure a fair distribution if the total available quantity of a particular class of goods is reduced. It is doubtful if this particular system of rationing by quantities rather than by values will discourage spending, but there is no doubt that it will bring many problems to the retailers whose every requirement must be backed by coupons, whose records are to be multiplied and who will be called upon to make further periodical returns. At the moment the chief consolation of the retail trader is to be found in the appointment of a Committee by the Board of Trade " to examine the present problems of the retail trade in goods other than food, having regard both to the immediate needs of the conduct of the war and the position after the war and to report."

War Damage Commission

The War Damage Commission deserve a word of commendation for the manner in which they are grappling with the administration of Part 1 of the War Damage Act. To the middle of June a sum of about four million pounds had been paid out under the heading of Cost of Works payments. True the bulk of this was refunds to the Local Authorities on account of first aid repairs undertaken by them, but it is gratifying to be able to report that owners who have undertaken their own repairs and have taken the trouble to make their claims in proper form have received cheques to reimburse them for payments already made for first aid repairs or partial reinstatement or for complete reinstatement in cases falling within the category to be covered by a Cost of Works payment.

Claims Procedure

The Treasury has recently issued two sets of Regulations in relation to claims for war damage to land and buildings. A series of detailed instructions is given as to the procedure to be followed, which includes responsibility for notifying within 30 days occurrence of damage with such particulars as the War Damage Commission is entitled to require. Thirty days is also the period within which a claim for payment of cost of works or temporary works payment shall be lodged, the date to run from the receipt of the form or the completion of the work. Six months, however, is allowed for the submission of a claim for value payment, and the Commission has power to call for particulars within thirty days as to the disposal and value of any articles which became available in consequence of war damage. Some discretion is given to the Commission to extend the time limit in exceptional cases, and it may require information to be verified by a statutory declaration. The second set of Regulations indicates the circumstances under which the Commission may make immediate value payments instead of waiting until the end of the war. In general, there must be an element of public interest to justify an immediate value payment.

Professional Fees and War Damage Claims

Some misapprehension seems to have arisen as to fees which may be included in paying for war damage. The War Damage Commission wishes it to be known that professional fees in connection with the execution of repair work in circumstances where it is necessary to employ an architect, engineer, or surveyor, or other person in a supervisory capacity, may be included in claims, but that claims cannot be entertained for fees in respect of professional assistance rendered to clients in relation to the formulation and assessment of a claim.

The King's Birthday Honours

Members of the Accountancy profession will be interested in the following names which appeared in the recent Honours List :—

Baron : THE RIGHT HON. SIR WILFRID GREENE, Master of the Rolls.

Baronets : F. D'ARCY COOPER, A.C.A., Chairman, Executive Committee of the Export Council, Board of Trade.

Knights Bachelor : J. F. BODINNAR, A.S.A.A., Commercial Secretary, Ministry of Food ; W. E. DIGGINES, Chief Inspector of Taxes ; E. H. HODGSON, C.B., Second Secretary, Board of Trade ; G. P. MORRIS, Town Clerk of Westminster.

C.B. : HERBERT BRITTAIN, Principal Assistant Secretary, Treasury (Treasury Officer of Accounts).

C.B.E. S. E. MINNIS, Assistant Secretary, Board of Inland Revenue.

I.S.O. : W. E. WALL, F.S.A.A., Chief Inspector of Audit, National Insurance Audit Department.

O.B.E. : H. BRUCKSHAW, A.C.A., Chief Accountant, Ministry of Aircraft Production ; T. E PENNINGTON, D.C.M., A.S.A.A., Secretary and Treasurer, Gibraltar City Council.

M.B.E. : I. M. COWAN, A.S.A.A., Borough Treasurer, Margate ; W. FISK, F.S.A.A., Hon. Secretary, Maidstone Savings Committee ; A. PHILIP, A.S.A.A., Hon. Secretary, West Renfrewshire Savings Committee ; MISS E. SMITH, Personal Secretary to the late Lord Stamp ; R. A. WEATHERALL, F.S.A.A., Hon. Secretary, Swansea Savings Committee.

The Editor of "The Accountant"

We extend our congratulations to Miss Vera Snelling, the Editor of *The Accountant* and director of Gee & Co. (Publishers), Ltd., upon her twenty-five years' association with *The Accountant*, which the proprietors have marked by a presentation to her. The occasion affords us an opportunity of acknowledging the high standard of professional journalism and impartiality which under Miss Snelling's editorship *The Accountant* has consistently maintained. Miss Snelling is well known to a large number of members in the profession, who have a high regard for her and for her work.

Income Tax and Estate Duty on Commuted Pensions

The incidence of Income Tax and Estate Duty in relation to varied benefits payable to widows and other dependants is specially dealt with in the report of the Association of Superannuation and Pension Funds, and the following notes summarise the position in the majority of special cases : (*a*) Where a pension payable to an employee upon retirement is commuted by the trustees in accordance with the terms of the deed, Income Tax is payable under Regulation No. 8 of the regulations made under section 32 of the Finance Act, 1921 ; (*b*) where, upon the death of an employee, contributions made by and on behalf of the deceased (with interest, if any) are paid to the deceased's estate, such payments are subject to Estate Duty. No Income Tax is payable under Regulation No. 8 or otherwise ; (*c*) where an annuity is to be payable for the balance of a period to a widow or other dependant Estate Duty is payable, provided that the total property passing on the death, including the value of the annuity, exceeds £100 in net value. Such an annuity, if commuted for a lump sum, is subject to Income Tax and Estate Duty.

Director-controlled Companies

Where a company is director-controlled throughout a chargeable accounting period so that Rule 10 (1) applies, and a director owning not more than 5 per cent. of the ordinary share capital is engaged whole-time service in the chargeable accounting period, but was not so engaged or owned more than 5 per cent. of the ordinary share capital in the standard period, the Revenue contention is that the remuneration of such director is to be deducted in computing the profits for *both* the standard and the chargeable accounting periods for E.P.T.

Ban on Unit Trust Issues

Because it touches on wider issues, rather than for its actual effects, the City has noted with some disapproval the fresh restrictions placed on the activities of the unit trusts. By an amendment to Section 6 of the Defence (Finance) Regulations, trust units and sub-units are brought within the category of capital issues for which Treasury sanction must be sought. An exemption order has, however, been passed, which will permit the re-issue of units repurchased by the managers, and as this has been the only activity of most groups since the war began, the immediate effect of the Treasury decision is not catastrophic. From questions previously asked in Parliament, it would appear that the issue was brought to a head by the feeling of the management trusts that they were placed at an unfair disadvantage by the capital issues control. The more logical course would have been to free from the control any issue of securities which merely serves to finance the acquisition of existing securities and not new investment.

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COROLLARIES TO PRICE CONTROL

The Goods and Services (Price Control) Bill recently introduced into the House of Commons seeks to make further provision against excessive rises in the charges made for both goods and services, and to amend and supplement the provisions of the Prices of Goods Act, 1939. The Bill gives the Board of Trade power to fix by order maximum prices to be charged at any stage of production or distribution for goods specified in the order. It makes similar provision for fixing maximum charges for performing services in relation to goods, and the control will extend to the prices of second-hand goods with power to the Board of Trade to enforce the registration of all dealers in this class of trade. The Bill is a logical continuation of the Prices of Goods Act, 1939, which it proposes to amend in certain respects. The President of the Board of Trade pointed out in the House of Commons that the Bill is an integral part of the Government's general economic policy. If we are to carry on the industry of the country at the present level of wages, without further rises, it can only be done by maintaining the purchasing power of money or assuring that the cost of a reasonable quantity of the essential needs of every citizen is kept steady. The three main fields in which the unrighteous traders flourish are the conditional sale, the composite sale, and the intermediate or unnecessary sale. The Bill seeks to stop transactions within these categories and to protect the consumers and put into their hands a range of essential goods at a reasonable price.

Nobody doubts that the control of prices is a necessary and proper course for a government to adopt in time of war. It is a process which has disadvantages, but from the point of view of the community the benefits should outweigh any special difficulties experienced by traders. But the fixing of prices by the Board of Trade and the imposition of penalties under a statute will not of themselves achieve the desired result. Experience in other directions has shown that the maximum price in an Order becomes the minimum price in the shop with disconcerting rapidity. It is necessary to devise means by which proof can be obtained in the legal sense that a trader is contravening the Act. To this end it is provided in the Bill that any person dealing in controlled price goods or services must produce for examination accounts, books or other documents relating to the business, and that the Board of Trade may by order make provision for the furnishing of invoices by the seller to the buyer. Clause 14 goes a step further and proposes to enable the Board of Trade, either by notice in any particular case or by a general Order, to require the keeping of books, accounts, and other records in relation to a business which includes the selling of controlled goods or services, and to enable the Board of Trade, or a price-regulation committee appointed under the Act of 1939, to require the production and examination of such books, accounts or other documents relating to the business as may be deemed necessary. The extension of the power to the price-regulation committees will enable these bodies to carry out their duties in a manner which will be more satisfactory to themselves than was hitherto possible. Prior to the war it could be broadly said that a trader could, to a large extent, please himself as to what records or books he should keep in regard to his business provided he never became bankrupt or formed himself into a limited company, but wartime legislation in various directions is making it incumbent upon all those who engage in trade to keep proper books and records. The extension of compulsory bookkeeping to all persons engaged in trade is long overdue, and although the principle is here applied only as a corollary to price control, it will be welcomed by all sections of commerce.

When the Bill reaches the Statute Book it may revolutionise in some degree the trade in second-hand goods. It is easy to foresee difficulties in regard to street markets, oftentimes the principal centres for goods of this character. In these centres invoices and books are sometimes shunned like the plague, and compulsory accounting by the street trader may have more far-reaching effects than the mere enforcement of price control. It may be hoped that the Board of Trade will make their Orders sufficiently comprehensive to achieve the indirect as well as the direct benefits which are desirable in the interests of trade generally.

The Small Industrial Enterprise in Great Britain

By A. M. de NEUMAN, Ph.D., University College of the South-west, Exeter

Among the thorny problems facing Captain Lyttelton, the President of the Board of Trade, in his attempt compulsorily to telescope the non-essential industries, is that of the small industrial enterprise. In view of the tremendous economic and social implications of the problem, it seems surprising that relatively little attention has been given to the position of the small undertaking. This can probably be explained on two grounds. Some people do not fully appreciate the importance of the small enterprise in the whole of our industrial structure, while others, though they may have an idea that it is considerable, are led to believe by casual observations that the historical trend has been consistently against the small firm and that for this reason there is nothing "unnatural" in accelerating the inevitable process of elimination. The latter class of people usually regard the small unit as being of necessity less efficient than its larger counterpart. In this article we shall examine the position of the small enterprise in industry and mining, while keeping our eyes open to the observed trends in the period separating the two wars. Our purpose is to demonstrate the considerable share of the small firm both in the net output of the country and in the volume of employment, and to show that the importance of the small firm has been, if anything, on the upgrade in the last fifteen years.

The last comprehensive figures in the Census of Production refer to the year 1935, of which some were published as late as 1940. The total value of the net output of all factory and non-factory industries in the United Kingdom amounted then to approximately £1,760 million. Of this total, the smallest type of establishments, employing less than 10 workers (including the owner), accounted for some £160 million, *i.e.*, over 9 per cent. This figure refers to the smallest enterprises. If to them we add the firms employing from 11 to 24 workers and from 25 to 49 workers, which in many trades must be regarded as small units, the share of the small firm will considerably increase. In this article, however, we shall confine ourselves chiefly to the smallest type of firms.

The total employment of manpower and womanpower in the factory and non-factory trades in the year 1935 amounted to over 8 million persons, of whom some 820,000 were in the small firms, which thus provided over 10 per cent. of total national employment in the factory and non-factory industries. These figures do not, of course, include the distributive trades in which the proportion of the smallest firms is very considerable.

The aggregate of small firms in the country is very large and far exceeds the number of the large firms. In 1935 the small industrial enterprise was scattered over some 205,000 firms, of which the largest number was in the building trade, which alone accounted for some 67,000 firms, and in the bread, cakes and biscuit trades, in which the small bakeries numbered almost 21,000.

The bulk of the entrepreneurship is still to-day in the hands of the small firm. Lord Mancroft, on April 23, during the debate on the concentration of industry in the House of Lords, said that "a great majority of the firms in this country, indeed three out of four probably, employ not more than 25 people."

In the non-essential industries, which at the present moment are being telescoped, the small enterprises are of considerable importance. It is only fair to ask whether sufficient safeguards have been taken to prevent an indiscriminate elimination of the small efficient enterprise, whose only drawback, compared with the larger concern, is not in efficiency, but in the lack of economic power or financial reserves. The process of concentration of industries has now reached the stage at which voluntary schemes should already have been submitted. The more difficult task of compulsory concentration has yet to begin. And it is here that the easy path of eliminating the small man constitutes an imminent danger both from the point of view of the war effort itself and from the point of view of the future.

It has been estimated* on the basis of Government statistics that the non-essential industries employ some 28 per cent. of all workers and contribute some 23 per cent. of the net output in terms of value. The small firms employ about 165,000 people out of a total employment in the non-essential industries of 2,050,000, while their contribution in terms of value is some £29 million out of a total in the non-essential industries of £368 million. To this we must add the small firms in the next class employing between 11 and 49 workers. Their contribution more than doubles the importance of the small firms in the total, raising the employment figures in the small firms to some 20 per cent. of all industries subject to concentration. The value of the contribution of the small firms to the net output of the non-essential industries amounts to some 21 per cent. of the total. This contribution is far from being negligible.

In the following groups of trades the small firms employing less than 10 workers each were of considerable importance. In the clay, building materials

* Cf. *Industry under Contraction*, by A. L. Bowley and A. M. de Neuman, a letter in *The Times*, March 31, 1941.

and building and contracting industries they contributed before the war some 27 to 28 per cent. of the total value in the group which amounted to almost 3 per cent. of the total value of the net output of all industries in the country. From the point of view of employment the small firms in this group were of even greater importance, occupying some 275,000 workers, *i.e.*, about 29 per cent. of all occupied in that trade, and some 3.5 per cent. of all workers in the factory and mining industries. In the engineering and vehicles industry the small enterprises have produced an output of some £19 million, which corresponds to approximately 7 per cent. of the whole net output in this group. The most important contribution of the small firm here was in the otor-car repairing trades. To-day many of those firms are sub-contractors of the larger firms in executing Government orders instead of being given orders directly. From the point of view of employment the small firms in this group represent almost 9 per cent. of the whole. In the non-ferrous metals group the smallest firms contributed 8 per cent. to the net output of the group and more than 9 per cent. to the employment. Similarly, in the leather group the small firms provided more than 10 per cent. towards the net output of the group and more than 12 per cent. towards the employment; the latter amounted to some 0.9 per cent. of the whole employment in the factory and non-factory industries of the country.

Among the industries in which the smallest firms are of great importance, though they have been losing ground in the last fifteen years, is the clothing industry. The small firm was responsible here for over 17 per cent. of the total net output of the group, the latter amounting to some £100 million. Employment in the small firm was less than proportional to output; it amounted to some 16½ per cent. of the whole group. The small firms were of considerable importance in the food industries, accounting for over 17 per cent. of the total net output of the group and over 21 per cent. of the employment, which correspond to 1.3 per cent. of the total industrial employment of the country. In the timber trade the small concerns secure over 29 per cent. of both the net output and employment of the group. Over 68,000 people were working in the small firms belonging to the timber trade. The small firms in the paper, printing, and stationery group were responsible for over 6 per cent. of the net output of the group, and for over 7½ per cent. of the group's employment.

Apart from the foregoing groups, small firms play a prominent part in almost all industries. Taking all the industries together, with the exclusion only of building and contracting, in which small firms are unusually strongly represented, we obtain a figure of 7 per cent. of the total net output, and over 7½ per cent. of the total employment of all the industries concerned.

Let us glance in turn at the changes which the position of the small firms had been undergoing in the period between the two great wars. Our statistics show that the small firm was gaining in importance all the time, both in employment and in the value of its net output.

Starting with the net output first, the smallest firms contributed in 1924 some £120 million of the total industrial output of the country, valued at £1,670 million. At the time of the fourth Census of Production in 1930, the net output of the small firms increased to £135 million, and it kept on increasing to £160 million in 1935, thus constituting a considerable slice of the total industrial output of £1,760 million in that year. No detail figures of the size of the output are available after the year 1935, but whatever sparse evidence there is goes to prove that the small firm was certainly not losing ground in spite of the generally observable monopolistic tendencies in all industries.

It is, however, still more interesting that the share of the small enterprises in the national income has been consistently increasing ever since the end of the last war. In 1924 the smallest firms employing less than 10 workers contributed 7.2 per cent. of the whole value of industrial output of the United Kingdom. In 1930 the share of the same type of firms rose to 8.2 per cent., and it continued to increase until it reached 9.1 per cent. in value terms by 1935. The most phenomenal rise of the small firm was observed in the building and contracting industry, where the value of its net output rose from £23 million in 1924 to £46 million in 1935; which was an increase equal to almost three times the rate of the larger firms. But, notwithstanding the building and contracting industries, the small firms have increased their share in the total net output of industries from 5.8 per cent. in 1924 to 6.4 per cent. in 1935.

As employers of labour the small undertakings have been gaining in importance. They have increased their employment figures at the same time as the larger units have been slowly reducing theirs. In 1924 the smallest firms employed approximately 700,000 workers out of a total of just over 8 million, *i.e.*, 8.7 per cent. of the total. By 1930 the number of workers in the small firms rose to 780,000, while the total employment fell to 7,950,000. This raised the share of the small firm to 9.8 per cent. of the total industrial employment of the country. In 1935 the employment given by the small firms increased by a further 40,000 persons to 820,000 out of a total of 8,020,000, which was just over 10 per cent. Of the total employment in the smallest firms the builders and contractors employed in 1935 260,000 persons or 37 per cent. of all employment in the building and contracting industry. Compared with 1924 the share of the small builders in the employment of the industry has almost doubled in the course of the last years, while that of the large builders has scarcely changed.

The upshot of this review is that both in respect to employment and to the value of output the small firm before the war not only maintained its position in the community but even managed to improve it. No "natural" trend against the small firm can be detected on the basis of statistical observations.

General Principles of Budgetary Control—I

By H. SENIOR M.Sc. (Econ.), Chartered Accountant

Development of Budgetary Control

Technological development has facilitated and at times necessitated a great increase in the size of plant. Two major phases in the reorganisation of industry, first in the form of " rationalisation " and, secondly, in " planning," have resulted in the development of complicated and specialised machinery. In consequence, greater emphasis has come to be laid upon fixed capital and its resultant influence upon costs ; thus the relative importance of overhead costs and costing technique has increased.

When overhead costs form a greater proportion of the total cost the gap between the minimum price required to maintain the productive plant and the price which covers all costs becomes wider. Prices may more easily be forced below a remunerative level by price cutting, which then produces complaints and as it becomes increasingly harmful to a particular industry steps are taken, either within the industry or by State assistance, to establish some cost concept as a basis of a " fair price." The N.R.A. codes in the United States are excellent examples of State help in this respect. Again, then, the cost concept becomes more and more important.*

Improved methods of production were not at first accompanied by advances in the financial or accounting organisation and it required the development of cost accounting to provide the link. This new science of costing received considerable stimulus during the last war. While some attention had been given to costing prior to the war, it had not been adopted over a very wide field.

The object of costing was to reveal what the accounts did not readily explain, namely, what profit or loss had been realised in each section or product of the business. There was a fresh analysis of expenditure which yielded to the management more obvious clues to efficiency than had previously been afforded by accounting records. Not only was the sales organisation provided with more accurate information to help it determine prices, but the cost of processes, services or various departments were revealed. Production is dynamic and the organisation of a business must be kept continually under review. A good cost system enables better control to be maintained over labour and materials, the two major components of cost. Alternative methods of production are often available and costing enables comparisons to be made. Auxiliary services may be conducted by a firm (*e.g.*), delivery by a fleet of vans), but where cost control is available, the relative saving or loss compared with outside contracting may be assessed.

But the pendulum swung too far, and often a great deal of elaborate data was collected which was of no use to the management. Costing staffs were swollen until firms found themselves metaphorically spending a shilling looking for a loss of sixpence.

Criticism in America was chiefly centred round the disadvantages of job order costing methods. Emerson in his book, " Efficiency as a Basis for Operation and Wages," draws attention very clearly to some of the outstanding defects of the old job order method. He refers to " mixing up with costs incidents that do not have the remotest connection with them." Gantt foreshadowed the development of standard costs in a trenchant criticism of accountants, saying " When an accountant wants to figure the cost of an article, one of the first things he does is to throw in all the ' overheads.' Even though nine-tenths of the plant is absolutely idle, 100 per cent. of the whole investment is charged to the ' cost of production.' This is altogether misleading. If I rent two apartments in New York City at $100 a month each, then live in one and keep the other closed, I cannot honestly claim that it costs me $200 a month for a place to sleep." Harrison, in his criticisms, foreshadowed budgetary methods when he wrote : " Until very recently the accountant regarded his sphere as being confined to the recording of past events. The average controller considered that his full duty had been performed if he promptly reported the fact that the horse was stolen ; it was no function of his to see that the stable door was locked so that the sad event could not occur."

In this country, too, the old technique of costing has been the subject of criticism. R. S. Edwards points out that the only data worth collecting are those which may possibly influence the management policy.* Investigators will agree that statistics are often collected though they have lost their significance. Instructions may have been given by an executive for certain figures to be collected and they continue to be recorded long afterwards, no countermand having been given. Again, statistics may be presented to the management in such a form that a useful conclusion cannot be derived from them—they cannot be digested mentally. There have always been difficulties of terminology and at last the major irrelevant controversies (such as the question of the inclusion of interest on capital in costs and the question of the evaluation of material) are being relegated to their proper places—the debates of the fastidious theorists.

As costing methods became more familiar it was realised that the unit cost of production varied considerably as the output changed ; in other words, the disturbing element in comparative costs was the level of production. In order to eliminate this disturbance the method of standard costs based on " normal " or " standard " output was evolved and it was immediately realised that the results obtained were a suitable base for production control. The term " standard costing "† rather leads the reader to think of a fixed measurement, accurate and inflexible, and one can level a certain amount of criticism against this method unless the controller takes care that the standards are not regarded

* R. W. Harbeson. " The Cost Concept and Economic Control." (Harvard Business Review, Spring, 1939.)

* " Rationale of Cost Accounting," Some Modern Business Problems series, p. 278. (This essay develops a theme to which more and more attention will be devoted in the future, namely, the effect of additional output upon the additional expenses. The conception of differential costs can only apply in practice to major changes, nevertheless, the application of economic principles to costing theory should ultimately yield interesting results.)

† Standard costing must be distinguished from standardised costing. In the latter case (very often referred to as uniform costing) methods of obtaining cost data have been formulated, to be applied in different business units within one industry. The object is to exchange standard information, or to enable costing data of a uniform nature to be collected for use of the industry or a group of firms, *e.g.*, for price or quota production control in selling cartels.

as fixed. Again, it may be difficult in certain industries to determine a normal or standard output because, apart from cyclical variations, there is always a long period development trend. This criticism is theoretical rather than practical, for there can usually be traced in almost every business an output level which is recognised by the management as a reasonable average taking into account good and bad years.

Kearsey, however, in his book " Standard Costs," uses the term " standard " in another sense, *i.e.*, that output produced under model conditions where there are certain stated conditions of efficiency. He goes on to assert that " for price fixing, cost standards must be increased by appropriate increments to cover a reasonable proportion of the difference between actual and standard costs." Thus, one very important result of standard costing is to distinguish the cost involved when plant is idle due to shortage of orders and also to indicate the cost of wastage due to inefficient production. This distinction will be appreciated when considering a specific case. There may be a purely accidental breakdown in production during the processing of a certain unit causing the actual production cost to be high. Under standard costing methods that breakdown would be ignored in relation to the particular unit, but the loss resulting therefrom separately treated, *e.g.*, merged with general oncost.

In this country the technique of standard costing has now become more widely applied. It is the basis of budgetary control and therefore it might be useful to indicate in general terms how the standard costs are compiled. Five major components of costs may be considered, namely :—

(*a*) Material.
(*b*) Labour.
(*c*) Factory overhead or burden.
(*d*) Advertising and selling.
(*e*) Administration.

(*a*) To deal first with material, the establishment of standards involves the determination of material usage and buying prices. Material usage is very often a technical problem and the responsibility for the material specification will normally be accepted either by the development section or the production engineer. When the work is not involved the standard may be deduced from past recorded experience and may, in fact, be established in the cost department. Operating efficiencies involved will require agreement with the production engineer. Any deviation of actual from the standard will be thrown up on the accounts as a gain or loss and is the basis of control.

The buyer is responsible for fixing the standard prices. Those standards will also be the basis of the materials budget and he will be expected to provide the necessary quantities at those prices.

(*b*) Where time study is practised, the fixing of standard labour costs lies in the rate-fixing staff. In other industries standard piece-work scales provide the basis of determination.

(*c*) The rate of absorption of oncost is determined only after consideration of the budgets. The set production programme (which is linked with the sales programme and the stock budget) will indicate the rate required to recover the overheads. It is a matter of policy whether that rate is used, or where a higher or a lower rate is fixed, the idle time factor (or its converse) is thrown into gain and loss.

(*d*) and (*e*) Usually the standard absorption is determined as a percentage on total cost. It may be deemed better to compute only the standard factory cost and in that case the expenses of advertising and selling and administration are included in the margin between recorded cost and selling price.

The standard factory cost becomes, then, the measuring rod of the efficiency of production and the margin between that cost and the selling price becomes the measure of the ability of the sales staff.

Constant comparison of actual with standard is maintained by monthly or periodic accounts and provides the management with suitable data for decisions. The combination of costing and production planning resulting from such decisions constitutes a measure of cost control.

(*To be continued*)

TAXATION

The Finance Bill—E.P.T.

We can now begin to examine the more important clauses of the Finance Bill in greater detail. Minor or major amendments may be made in the Report Stage, but these will be more easily followed if the original proposals are understood.

Borrowed Money.—The first sub-section is absolute—in computing the capital employed, no deduction is to be made in respect of borrowed money ; in other words, borrowed money is to be treated as capital employed in the business. It will not matter whether a profits standard, a capital percentage standard, or the minimum standard applies, borrowed money will be treated as capital. The clause then goes on to provide that, in computing profits, no deduction is to be made for interest on borrowed money or in respect of any other consideration given for the use of borrowed money. An important proviso follows whereby interest on borrowed money can be deducted in any case where the minimum standard is selected. Readers will not overlook the fact that if the rate of interest is higher than a proper commercial rate, the Revenue could exercise their powers to disallow it wholly or partly under Section 32, Finance Act, 1940, so that avoidance of tax cannot take place by paying extravagant rates of interest.

The clause also provides that, although interest is added back in arriving at profits, the provision for accruing liabilities shall still be deductible in arriving at the capital employed.

Where a chargeable accounting period overlaps April 1, 1940, computations will have to be made as follows :—

(1) Compute the standard profits and the profits of the chargeable accounting period on the " old " bases, and arrive at the excess profits or deficiency. Find the proportion thereof applicable to the period prior to April 1, 1940, and regard that as a separate chargeable accounting period.

(2) Compute the standard profits and the profits of the chargeable accounting period on the " new " bases, *i.e.*, adding back borrowed money and interest on the capital and profits computations (respectively) for both periods; arrive at the excess profits or deficiency and find the proportion applicable to the period after March 31, 1940, which will then be regarded as a separate chargeable accounting period.

The above apportionments must be made on the basis of months and fractions of months.

Where a substituted standard is applied for, borrowed money is to be treated as capital employed in all computations in exactly the same way as other capital, and will attract 6 or 8 per cent. according to whether the company is not or is director-controlled. But there is an important extension of the rate in that if a substituted percentage equal to the actual rate of interest payable on the borrowed money increased by 2 per cent. is higher than the normal rate, the substituted rate can be applied, *e.g.*, if the rate payable is 5½ per cent., 2 per cent. can be added, making 7½ per cent., so that if the company is not director-controlled, 7½ per cent. can be employed instead of 6 per cent.

It is interesting to examine this provision with Section 32 of the 1940 Act, *e.g.*, if a company is paying 10 per cent., giving 12 per cent. as the substituted percentage, the Commissioners might regard the rate as too high. *Prima facie*, it appears that they can do nothing about it, as Section 32 provides that, in computing the profits, no deduction is to be allowed in respect of expenses in excess of the amount which the Commissioners consider reasonable and necessary, having regard to the requirements of the trade. Since the interest is not allowable as a deduction in any case, Section 32 has no force as applied to the new clause, which appears to be paramount.

The new provisions are not to apply to the business of a building society, or of a banking business, assurance business or business consisting wholly or mainly in the dealing in or holding of investments (unless it is a member of a group of companies and its income from investments is left out of account in computing profits), and in relation to any other business part of which consists in banking, assurance or dealing in investments, they are to have effect only in relation to borrowed money not ascribable to that part of the business.

These provisions regarding the substituted standard will again involve two computations for chargeable accounting periods which " bridge " March 31, 1940, as they apply only after that date.

The new clause will penalise businesses which had large sums of borrowed money in the standard period, where the borrowed money has been repaid. Presumably the principle involved is that fresh capital must have taken the place of such borrowed money. Be that as it may, the " new " computation in such a case will be less favourable than the " old."

Losses to be Treated as Capital Employed.—At first sight, it might appear strange to allow losses to be treated as capital employed, but the strangeness disappears when it is considered that, at least in a recently set-up business, losses are in reality development expenses, building up connection. It is for that reason, presumably, that, in the case of a business commenced after July 1, 1936, losses made prior to April 1, 1939, are to be allowed to be added to the capital employed at that date. Moreover, in computing the substituted standard under Section 27 of the Finance Act, 1940, a net loss sustained over the period from January 1, 1929 (or the date of commencement of the business, if later) is also to be regarded as capital employed. A loss is to be computed according to E.P.T. rules, and is not simply the amount for income tax purposes, but interest on borrowed money is to be allowed as a deduction, and the wear and tear allowance is to be inclusive of the additional percentage where applicable (*i.e.*, 10 per cent. from April 1, 1932, to March 31, 1938, and 20 per cent. thereafter).

There is the important proviso, however, that losses shall not be regarded as capital employed unless the Commissioners are satisfied that the character of the business has remained substantially unchanged and that the business has, throughout the period over which the net loss is to be computed, substantially retained and maintained its fixed assets and its productive manufacturing or trading potentialities. The Commissioners are empowered to modify this condition where it is not fulfilled by allowing a smaller amount than the whole net loss to be added to capital employed, and appeal lies to the Board of Referees. It is obvious that the intention is to allow *bona-fide* losses, but not those acquired by means of amalgamating with derelict businesses.

It is to be observed that it is the " net " loss over the relevant period of years that is to be considered, *i.e.*, the debit balance remaining after setting profits against losses over the years concerned. Computations up to March 31, 1940, are not affected.

Remuneration under Service Agreements.—The effect of Section 32, Finance Act, 1940, empowering the Commissioners to disallow remuneration is most apparent where employees are remunerated by way of a percentage of profits. It appears that Inspectors of Taxes have been empowered to deal with most of these cases without referring them to the Board, and the main considerations to be borne in mind are :—

(*a*) Is the remuneration excessive having regard to the services rendered ? and

(*b*) Are excess profits being diverted in the form of salary ?

Clause 25 of the Finance Bill is a very necessary offshoot of Section 32, as the effect of disallowing remuneration for E.P.T. purposes might have been serious with E.P.T. at 100 per cent. The clause, however, allows the additional E.P.T. which thus becomes payable to be recovered from the employee. To find the amount so recoverable it is necessary to calculate the total E.P.T. and N.D.C. that would have been payable with and without the disallowance; the difference is the relevant amount. No recovery is to be permissible unless the person carrying on the business gives notice to the employee within 30 days from the date on which the Commissioners' decision under Section 32 is notified. If the notification is served before or not later than two months after the passing of the Finance Act, 1941, notice must be given to the employee within three months of the passing of the Act reserving the right of recovery, or it will be lost. The employee's income for income tax purposes will be reduced by the sum recovered by his employer, and the employer's income for income tax or N.D.C. purposes and deficiencies for E.P.T. will be computed as if the E.P.T. payable were reduced by the amount recovered. Similar results will follow on the relation of one member of a group of companies to another. The clause is to have effect from April, 1941, which will give rise to many apportionments (in months and fractions of months). An amendment was made at the Committee stage bringing the date forward from 1940 to 1941, to prevent hardship on employees who might have spent the money. The hardship for 1940-41, therefore, falls on the employer.

Taxation Notes

Partnerships

It cannot be too often emphasised that the unit of assessment under Cases I and II is the business. The firm is therefore assessed as one unit, but, provided the partners have made returns claiming their allowances, effect is given to these allowances in charging the firm. To arrive at the shares of the individual partners, it is necessary to divide the assessment among the partners in accordance with the profit-sharing agreement, not for the basis year, but for the year of assessment. The firm's Return will show the method of division, but it is not uncommon for there to be an alteration during the year, to which effect must be given. Often, of course, such a change does not affect the tax payable by the firm, and the adjustments can be made in the books, but where surtax is involved it will affect the tax payable. It may also affect allowances, *e.g.*, where the maximum earned income allowance is concerned.

Illustration.—The adjusted profits of A, B and C for the year to December 31, 1940, were £4,500, shared equally. Wear and tear allowance for 1941-42 was £360. On August 1, 1941, A took up a part-time post elsewhere, and it was agreed that in future the profits should be shared as follows: Interest on capital at 6 per cent.; salaries to B and C, £800 and £600 respectively; balance A, one-fifth, B and C remainder equally. Capitals were: A, £8,000; B, £8,000; C, £4,000. A was a widower with a housekeeper and two children under 16, B married with one child, C single. B and C paid life assurance

	Assessment on Firm, 1941-42			*Allocation to Partners*		
				A	*B*	*C*
Profits of year to December 31, 1940	£4,500	To August 1, 1941	£460	£460	£460
Less Wear and Tear Allowance	360	From August 1, 1941—			
		Interest, 9 months	360	360	180
		Salary, 9 months	—	600	450
		Balance	162	324	324
	4,140		982	1,744	1,414
		N.A.V. £400			
		Loan Interest 600			
		Excess Charges	200		
		To August 1, 1941	23	22	22
		From August 1, 1941	27	53	53
		Statutory Total Income	932	1,669	1,339
Allowances					
E.I.	£377		£93	£150	£134
P.A.	300		80	140	80
C.A.	150		100	50	—
H.A.	50		50	—	—
	877		323	340	214
	3,263		609	1,329	1,125

	Firm		*A*		*B*		*C*	
At 6s. 6d.—£495	£160 17 6	£165	£53 12 6	£165	£53 12 6	£165	£53 12 6
At 10s.—£2,768	1,384 0 0	£444	222 0 0	£1,164	582 0 0	£960	480 0 0
	1,544 17 6		275 12 6		635 12 6		533 12 6
Life Assurance:							
£320 at 3s. 6d.	56 0 0			£200	35 0 0	£120	21 0 0
Tax payable, Case I.	£1,488 17 6		£275 12 6		£600 12 6		£512 12 6
Schedule A, £400 at 10s.	£200 0 0						

(Above totals are amounts to be debited to the current accounts of the partners)

INCOME TAX ACCOUNT

1942			1942		
January 1. To Cash—			December 31. By Interest—		
Schedule A	£200 0 0		Amount Tax deducted		
,, D, 1st Instal.	744 8 9		£600 at 10s.	£300 0 0	
July 1. Cash, Schedule D, 1st Instal.	744 8 9		,, Current Accounts—		
			A	275 12 6	
			B	600 12 6	
			C	512 12 6	
	£1,688 17 6			£1,688 17 6	

premiums of £200 and £120 respectively. The firm owned premises assessed under Schedule A at £400 N.A.V., and paid loan interest of £600 per annum (payable by monthly instalments).

Possibly the original assessment would not have been amended before the first instalment became payable, in which case the payments would be as follows :—

		Firm
Original assessment		£4,140
E.I.A. (on £4,140—£200)	£394	
P.A., etc.	500	
		894
		£3,246
£495 at 6s. 6d.	£160 17 6	
£2,751 at 10s.	1,375 10 0	
	1,536 7 6	
L.A.R. £320 at 3s. 6d.	56 0 0	
	£1,480 7 6	
1st Instalment	£740 3 9	
Amended liability	£1,488 17 6	
Less 1st Instalment	740 3 9	
Amended 2nd Instalment	£748 13 9	

On notification to the Inspector of Taxes of the change, the tax payable would be adjusted, and £748 13s. 9d. collected on the second instalment.

Age Allowance

With the increase in the standard rate, the limit at which the marginal relief ceases to operate, where all the income is unearned, is when the total income is £600, thus :—

			Normal computation		*Marginal relief*
Total Income			£600		£500 + 100
Allowances : Age			—	£50	
Personal			80	80	130
			520		370
£165 at 6s. 6d.	£53 12 6	£165 at 6s. 6d.		£53 12 6	
£355 at 10s. ...	177 10 0	£205 at 10s. ...		102 10 0	
		100 × ¾ ...		75 0 0	
	231 2 6			231 2 6	

Frozen Debts

There appears to be a change in the attitude of the Revenue towards frozen debts. Hitherto it has been the custom to make no deduction for these but to hold over the collection of tax, but it now seems that the Crown is prepared to allow them as bad in appropriate cases, subject to the taxpayer undertaking to bring them into credit if recovered.

Deduction of Tax from Dividends

In the case of dividends paid by limited companies, the deduction of tax at source provided by General Rule 20 is permissive. The profits charged on the company are to be computed before any dividend thereof is made and " the body of persons paying such dividend shall be entitled to deduct the tax appropriate thereto." This must be read with Section 27 (5), Finance Act, 1920, which provides that the tax must not be deducted at a rate exceeding the standard rate as reduced by any relief in respect of Dominion income tax, and with Section 12, Finance Act, 1930, and Section 7, Finance Act, 1931, the effect of which is as follows :—

(A) Dividends are divided into two classes :—

(i) A preference dividend is (a) a dividend payable on a preferred share or stock at a fixed gross rate per cent., or (b) where a dividend is payable on a preferred share or stock partly at a fixed gross rate per cent. and partly at a variable rate, such part of that dividend as is payable at a fixed gross rate per cent. ; and

(ii) An ordinary dividend is any other dividend, including the fluctuating portion of a dividend on a preferred share or stock such as is mentioned in (b) above.

(B) Section 39, Finance Act, 1927, has effect, with the result that tax is deductible at the standard rate for the year in which the amount payable becomes due (a dividend is not due till declared payable—*Hurll v. Commissioners of Inland Revenue*, 1922, 8 T.C. 292).

(C) Despite (B), however, the company is only entitled to deduct tax from the amount paid out of profits or gains of the company which have been charged to tax or which would fall to be included in computing the liability of the company to assessment for any year if the Acts required the computation to be made by reference to the profits of that year and not by reference to those of any other period.

(D) In the case of an ordinary dividend, the amount paid, to the extent that it is paid out of such profits as are mentioned in (C), is to be deemed to represent income of such an amount as would, after deduction of tax, be equal to the net amount paid.

Following the well-known case of *Neumann v. Commissioners of Inland Revenue*, 1934, A.C. 215, many companies attempted to exploit the optional character of General Rule 20, and declared dividends expressly " without deduction of tax." Recipients who were sur-tax payers contended that as no tax was deducted by the company, only the amount actually received was to be included in their total income. All decisions were in favour of the Crown until the House of Lords held in *Cull v. Commissioners of Inland Revenue*, (1939, 18 A.T.C. 149) that the Crown was wrong.

Parliament lost no time in passing the legislation necessary to close such a glaring loophole, and Section 20, Finance Act, 1940, provided that for 1939-40 onwards, if a dividend is paid without deduction of tax, it is to be regarded as declared " free of tax " and must be grossed accordingly. There is still a doubt, however, whether this would apply to a " grossing up " which attained a figure in excess of the profits of the company as mentioned in (C) above.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Schedule D—" Easements "—Purchase of sand and gravel upon certain land—Purchase of coal in specified seams—Finance Act, 1934, *Section* 21.

In *Stratford* v. *Mole & Lea* and *Old Silkstone Collieries, Ltd.* v. *Marsh* (K.B.D., April 3, 1941, T.R. 23) substantially the same question was raised, whether the payments under two post-Section 21 agreements were rents in respect of " easements " within the definition of that term in the Act of 1934.

As one of the consequences of the *Salisbury House* case the old-established practice of the Revenue to regard as taxable income certain rents, etc., arising to the owners of surface rights in land subject to mining leases had been successfully challenged in *Elliott* v. *Burn* (H.L., 1933-4, 18 T.C. 595). The matter was promptly dealt with by legislation ; and, by definition in Section 21 of the Finance Act, 1934, " easement " was made to include " any right, privilege, or benefit in, over, or derived from land," terms which have been judicially described as " about as wide as any terms which could be devised to cover any right or advantage, even a personal right or advantage." Hitherto, the cases considered by the Courts had been pre-Section 21 agreements ; but the present ones represented attempts to defeat the object of the section by the creation of rights which would not be " interests in land " but " goods " within the definition of the latter in Section 62 of the Sale of Goods Act, 1893.

Mole & Lea were sand and gravel merchants who had entered into an agreement whereby they bought all the sand and gravel upon certain land, whilst Old Silkstone Collieries, Ltd., had agreed to purchase all the coal in certain seams, which coals when severed were to be chattels personal of the buyer. The legal argument rested upon cases in which the distinction between sales of goods and of interests in land had been examined by the Courts. Lawrence, J., in finding for the Crown in both cases, said that both agreements granted profits *à prendre* and such profits were in his opinion within the definition of " easements " in Section 21.

National Defence Contribution—Controlling interest—Indirect control—Finance Act, 1937, *Schedule IV, Part I, paragraphs* 4 (*b*), 7 (*b*), 11.

In *C.I.R.* v. *F. A. Clarke & Son, Ltd.*, and *British-American Tobacco Co., Ltd.* v. *C.I.R.* (K.B.D., April 8, 1941, T.R. 33) the issue was the meaning of " controlling interest." In each case the directors did not possess a preponderance of the voting power ; but they had a preponderance of voting power in companies which, in turn, controlled the companies of which they were directors.

It was argued against the Crown that the word " interest " meant a legal or equitable interest of a proprietary nature in the shares of the company sought to be taxed and that the indirect control existent in the present cases was not such an interest. Reliance was placed on *Macaura* v. *Northern Assurance Co., Ltd.* (1925, A.C. 626), where it was decided that a shareholder had no insurable interest in the assets of that company, and upon the wording of Section 53 (2) (*b*) of the Finance Act, 1920, where in relation to the corporation profits tax the words " directly or indirectly " were used in association with " controlling interest." For the Crown it was contended by reference to other cases that the word " interest " was a word of wide connotation, and that the words " controlling interest " must be interpreted together. The Finance Act, 1920, showed that the words could be used equally to include an indirect as well as a direct controlling interest, and in their ordinary meaning did so.

Lawrence, J., found the Crown's contention to be correct. He did not consider it to be a proper inference that, because the Finance Act, 1920, mentions expressly a controlling interest direct or indirect, the Legislature, when it spoke of a " controlling interest " *simpliciter* in 1937, meant only a direct controlling interest. The word " controlling " was not a term of art, nor was the word " interest " necessarily so. When the two words were used together in their ordinary meaning they covered both direct and indirect control.

The decision is one of considerable importance and would seem to be in accordance with the Stock Exchange conception of " control."

Schedule D—Trust estate—Income from life interest in residue subject to annuity—Whether income from securities, stocks, shares and rents—Whether assessable upon whole income or only upon remittances—Case IV, Rule 1, *Case V Rules* 1 *and* 2.

In *Nelson* v. *Adamson* (K.B.D., April 8, 1941, T.R.35, the appellant, a resident in the U.K., was life-tenant under an Australian will by which the estate was bequeathed on trust to pay an annuity and then to pay the residue to her. The trustees had made no appropriation for the annuity and under the will were entitled to a percentage of the net income for their services. The Special Commissioners had held that *Archer-Shee* v. *Baker* (1927, A.C. 844, 11 T.C. 747) governed the case and that the appellant was chargeable under Cases IV and V upon income and not upon remittances.

In *Archer-Shee* v. *Baker* the House of Lords decided that in English law the income receivable by the *sole* beneficiary under a trust arose from the specific securities, stocks, shares, rents, etc., constituting the trust fund ; but in the present case it was argued that the basis of that decision was that the beneficiary had an equitable title to the very dividends on the stocks and shares ; that it was inapplicable in the circumstances above-mentioned ; and that where there is an annuity payable the beneficiary's only title is to the residue. It was also argued that the *Archer-Shee* case was distinguishable because in the present case the trustees were appointed and remunerated under the will and not by the appellant. Support was also sought from *Murray* v. *C.I.R.* (1926, 11 T.C. 133), *McFarlane* v. *C.I.R.* (1929, 14 T.C. 532) and *C.I.R.* v. *Crawshay* (1935, 19 T.C. 715).

For the Crown it was contended that the annuity and the trustees' remuneration were charged upon the residuary income of the appellant ; that her income arose none the less from securities, stocks, shares and rents ; and that Lord Wrenbury's speech in the *Archer-Shee* case applied to the circumstances.

In giving judgment for the Crown, Lawrence J., said that in the *Archer-Shee* case it was held that the interposition of a trustee did not prevent the income of the *cestui que trust* arising from the stocks and shares held by the trustee. He then posed several questions. Did the further interposition of an annuitant make any difference? Did the income which the *cestui que trust* received arise any more from the trust than where there was no annuitant? Was it true that the income was from a possession when there was an annuitant or two beneficiaries, but from stocks and shares when there was a sole beneficiary? Why was a trust fund a possession when there was an annuity charged on it and not so when there was no such charge? The answers to these questions he found to be that the residue still arose from the stocks and shares within the meaning of the Income Tax Acts and no more arose from the trust than when there was no annuity.

This judgment affords food for thought. It will be remembered that in the *Archer-Shee* case it was taken for granted—an assumption subsequently proved to be unwarranted—that the trust law of New York State was the same as here. But, granted similarity in this respect, the position has to be visualised where practically the whole of the trust income is specifically bequeathed and the residue is positive in one year and negative in another. It would seem that the residuary beneficiary would be taxable upon surpluses as income from securities, stocks and shares, without being allowed any relief in respect of anterior deficiencies, and so have to pay tax upon more than his actual income.

National Defence Contribution—Investments or other property—Licence to use patents and secret formulæ and to have exclusive manufacturing rights in area—Licensors to supply machinery and raw materials—Royalties—Whether liable—F.A., 1937, Section 19; Fourth Schedule, para. 7.

In *C.I.R.* v. *Anglo-American Asphalt Co., Ltd.* (K.B.D., March 27, 1941, T.R. 37), the respondent company, upon April 15, 1929, entered into an agreement with certain licensees. Under it, the latter were to have the use of certain patented articles and secret formulæ; they were to have the exclusive right of manufacture in a defined area; to be supplied with a special machine; and with all the raw materials necessary at an agreed price per ton. In consideration, they were to pay a sum of £400 and a royalty upon all the materials manufactured under the agreement. The Special Commissioners had held that £6,146, royalties received, was income from "other property" within paragraph 7 of the Fourth Schedule of the Finance Act, 1937, and so not chargeable to N.D.C.; but this was reversed by Lawrence, J.

He said that reliance had been placed upon *C.I.R.* v. *Sangster* (1920, 12 T.C. 208). In that case it was held that, even where a "business of inventing" might be said to be carried on, the royalties did not arise from a trade or business; whilst, for the Crown, two contentions had been put forward, first, that "investments or other property" refers to property not used in the company's business and that the patents and secret formulæ were so used, and, secondly, that the royalties arose not from the user of the patents and secret processes but from the whole agreement which was a trading agreement. He did not consider it necessary to express any opinion upon the first contention, having come to the conclusion that the second was correct. It was impossible to separate the patents, secret processes and the royalties to be paid therefor, from the rest of the agreement. The royalties were in express terms stated to be one of the considerations for the other clauses. The whole agreement was bound together and not separable into parts.

Schedule E—Agreement to act as manager of works—Remuneration by share of profits—Duties performed but no remuneration paid—Cancellation of agreement—Payment for services to date—Lump sum for loss of right to future remuneration—Whether income or capital.

In *Duff* v. *Barlow* (K.B.D., April 1, 1941, T.R.17) the respondent was the managing director of the Metal Box Co., Ltd., a company which in 1935 purchased a tinplate works and formed a subsidiary company, the Eaglebush Tin Plate Works, Ltd., to work it. The new venture meant extra work for the respondent and another director, and they suggested that they should receive as additional remuneration a percentage of the profits. As, however, the subsidiary was to sell its output to the parent company at cost, this would entail hypothetical calculations. The suggestion was approved in principle, and, although no final agreement was reached as to the exact percentage to be paid, it was agreed that the two directors should manage the subsidiary from 1935 to 1945 inclusive. In 1937, the directors of the parent company came to the conclusion that the agreement was not in the best interests of that company and, following discussion, a formal agreement for its cancellation was entered into whereby each of the two directors was to receive £500 for past services and £4,000 for loss of rights under the first agreement. The Special Commissioners had held that the £4,000 was not remuneration by compensation; and their decision was upheld by Lawrence, J.

He said that the question was whether the sum was compensation for loss of office which, being a source of income, was in his opinion a capital asset, or was a lump sum payment as remuneration for future services in the same capacity. The Crown had contended that there was nothing in the circumstances or documents to indicate that respondent was not to go on acting as manager of the Eaglebush Company as before; but whilst he had been in doubt whether he should send the case back, he had come to the conclusion that the Crown's contention was negatived by the wording of the company's minutes. Even if he did continue to perform any of the services to the subsidiary company, he was not under any obligation to do so. The £4,000 was properly treated as compensation for loss of office, and so was not taxable. The Special Commissioners had held themselves bound by *Hunter* v. *Dewhurst* (1932, 16 T.C.605, 145 L.T.225); but he thought that that case was not on all fours, although Lord Atkin's observations covered the point.

The legal relationship between the two directors and the subsidiary company would seem to have a bearing upon the subject, but cannot be learnt from the limited report. In *Prendergast* v. *Cameron* (House of Lords, March 12, 1940), noted in our issue of May, 1940, it was held that *Hunter* v. *Dewhurst* was decided upon its special facts and established no general principle. The present case opens up possibilities of evasion, and so may be carried further.

LAW

Legal Notes

COMPANY LAW

Voluntary Winding-up—Carrying on Business—Priority between Creditors—Liquidators.

In *Re Great Eastern Electric Co., Ltd.* (1941, 1 All E.R. 409), there was a dispute between two classes of creditors, those whose debts were incurred before the voluntary liquidation and those whose debts were incurred by the liquidator in carrying on the company's business. The liquidator took out a summons to determine the order of application of the assets. On March 24, 1938, the directors made a declaration of solvency under the Companies Act, 1929, Section 230. Four days later a resolution was passed for a members' voluntary winding-up. The liquidator, H, an accountant who had been a director of the company until 1931, carried on the company's business until April 21, 1939, when a petition was presented to the Court, and on May 8, 1939, the Court made an order for winding-up. In the compulsory liquidation, B was appointed liquidator. Investigation showed that H distributed dividends amounting to nearly 10s. in the £ to nearly all the creditors as at the commencement of the voluntary winding-up. These pre-liquidation creditors received £3,116; he neglected to pay a few such creditors, whose debts totalled about £70. In carrying on the business he incurred debts to post-liquidation creditors amounting to £1,379, which he did not discharge. On realisation of the whole assets, there was available for all purposes only £800. It was contended that H, in carrying on the business so long, was not properly exercising his statutory power and that therefore the post-liquidation creditors could not claim to be paid in priority to pre-liquidation creditors.

Simonds, J., found that it was material that the liquidator assumed office on a declaration of solvency, which meant that the directors believed the company would be able to pay its debts within 12 months from the commencement of the winding-up. H had come to the same conclusion after investigating the company's affairs, and there was therefore no apparent urgency to realise the company's assets. Therefore no blame attached to H. It was easy to be wise after the event and to say at this or that point he should have realised the danger, but one had to remember the international crisis of 1938, and also that a false estimate had been placed on the value of a lease. He decided that, on the whole, H had properly exercised his statutory power. It was not right to set up some objective standard after the events and to judge the conduct of liquidators by that standard. It is sufficient if a liquidator *bona fide* and reasonably forms an opinion that the carrying on of the business is necessary for the beneficial winding-up of the company. The post-liquidation creditors must be paid before any further payment was made to any pre-liquidation creditors. The liquidator should not be deprived of his proper remuneration. Costs of all parties must be paid by B (the present liquidator) out of assets, in priority to any other claim. The Judge expressed no opinion whether the liquidator was justified in paying pre-liquidation creditors without retaining sufficient money to satisfy all post-liquidation creditors, nor whether any particular post-liquidation creditors gave credit to him, or looked only to the company's assets.

INSOLVENCY

Bankruptcy—Receiver's remuneration—Reopening Transactions.

In *Re Kay and Lovell* (1941, 2 All E.R. 67) Morton, J., had to decide an interesting point regarding jurisdiction in bankruptcy. The motion was by the trustee in bankruptcy of Kay and Lovell for an order that the registrar should take and receive accounts and assess the remuneration in respect of the period during which accounts had been taken and passed, and the receivers' remuneration assessed in the partnership action (both partners, Kay and Lovell, had become bankrupt). In October, 1938, Kay had taken a partnership action against Lovell, asking for dissolution and other relief, and Sir Harold Moore was appointed receiver and manager. In April, 1939, Quaife was appointed jointly with Sir H. Moore, and in April, 1940, a consent order was made dissolving the partnership. Receiving orders were made against both Lovell and Kay. The trustee in bankruptcy asked for an order that the receivers give up possession of the bankrupt's property and that they bring in their accounts, to be taken and passed; also that the receivers' remuneration be assessed by a registrar. Morton, J., held that there was no jurisdiction to reopen accounts already dealt with in the Master's certificates.

EXECUTORSHIP LAW AND TRUSTS

Charities—Validity of Gifts for Religious Purposes.

The artificiality of the law governing charitable trusts was again forcibly illustrated in the recent case of *Re Mylne; Potter* v. *Dow* (1941, 1 All E.R. 405). The testatrix gave part of her residuary estate to create a trust fund for the benefit of persons engaged in evangelistic work, "but so that no person shall be eligible for any benefit under this trust unless he or she shall be a Protestant in religion and a whole-hearted believer in the duty of Christ and the full inspiration of Scripture." Farwell, J., had to decide whether this bequest constituted a valid charitable trust. It had been suggested that it was void for uncertainty or that it might be construed as a special power of appointment given to the trustees. Farwell, J., decided it was a good charitable bequest, being for the advancement of religion. The difficult question was raised by the condition limiting benefit to those who were wholehearted believers, etc. Was that a condition about which it was impossible for the trustee to be satisfied, and therefore void for uncertainty? By a recent decision of Morton, J., a condition whereby a child or grandchild of the testatrix was to forfeit his interest if he married someone not of the Jewish faith was held void for uncertainty. Farwell, J., giving reasons for deciding in a contrary sense in the present case, said that a condition whereby a person forfeits an interest must be construed strictly; that in the former case it was impossible to decide whether or not a person was "of the Jewish faith," as that was a state of mind. But in the present case he thought it not impossible to discover whether persons were suitable beneficiaries, in accordance with the qualifying condition laid down in the will. It was merely a question of trustees selecting a class of persons, and if they acted honestly no one could complain. The subtle distinction between such a condition for qualification and the forfeiture condition in the previous case referred to is almost impossible to appreciate. The only lesson to be derived from a comparison of the two cases is that anyone who wishes to bequeath money for a religious, or indeed any other charitable trust, should be carefully advised on the drafting of his will and would do well to make his trust in the simplest terms.

The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the war-time enactments and Orders which most concern the accountant. The twentieth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ACTS

Liabilities (War-Time Adjustment) Act, 1941.

Liabilities adjustment officers are to assist in promoting arrangements between debtors who are in difficulties owing to the war and their creditors. The debtor's business is to be preserved where possible. Arrangements may apply to partnerships and private companies. The Courts (Emergency Powers) Acts and the Possession of Mortgaged Land (Emergency Provisions) Act, 1939, are extended to contracts made after the commencement of the war.

(See ACCOUNTANCY, May, p. 131.)

Rating (War Damage) (Scotland) Act, 1941.

Rating authorities in Scotland may grant such relief from rates as they consider just and equitable in respect of lands and heritages which have suffered war damage.

ORDERS

EXPORTS

No. 630. *Export of Goods (Control) (No.* 19) *Order*, 1941.

This is a consolidating Order, which repeals and replaces all previous Export Control Orders, and embodies all amendments to date.

Nos. 742, 751. *Export of Goods (Control) Orders*, 1941, *Nos.* 20 *and* 21.

Amendments are made in the schedule of goods subject to export control contained in No. 630.

(See ACCOUNTANCY, May, p. 147.)

FINANCE

No. 475. *Order in Council adding Regulation 5b to and amending Regulation 3b of, the Defence (Finance) Regulations (Isle of Man)*, 1939.

The Isle of Man Regulations are made to correspond with those in force in Great Britain dealing with the alteration of securities to bearer form and securing payment for goods exported.

No. 632. *Defence (Finance) (Definition of Sterling Area) (No.* 3) *Order*, 1941.

Iraq is no longer part of the sterling area.

(See ACCOUNTANCY, May, p. 147.)

No. 649. *Order amending Regulation* 6 *of the Defence (Finance) Regulations*, 1939.

No. 648. *Capital Issues Exemptions Order*, 1941.

Treasury consent is required for the issue or re-issue of units or sub-units of a unit trust, if the number outstanding would thereby exceed the total on the date of the Order, and also for bills of exchange and promissory notes with a longer currency than six months. In reckoning the amount of issues in the previous twelve months for the purpose of the £10,000 exemption limit, it is now necessary to include only issues exempted on account of their size, and not those exempted under other provisions. No. 648 supersedes the Capital Issues Exemptions Order, 1940.

No. 672. *Regulation of Payments (General Exemptions) (No.* 2) *Order*, 1941.

The previous General Exemptions Order (No. 74) if revoked and superseded. No. 672 applies generally to "any territory in respect of which a Regulation so Payments Order is in force," and therefore has no schedule of countries affected.

No. 673. *Regulation of Payments (Central America) Order*, 1941.

The Regulation of Payments system is applied to the countries of Central America, which are regarded as one unit.

(See ACCOUNTANCY, March, p. 100.)

LIMITATION OF SUPPLIES

No. 700. *Limitation of Supplies (Miscellaneous) (No.* 11) *Order*, 1941.

The limitation of supplies under previous Miscellaneous Orders is renewed for the six months ending November 30, 1941. Most of the details of the scheme are unaltered. The Board of Trade has issued an explanatory memorandum on the new Order.

(See ACCOUNTANCY, April, p. 127.)

PUBLIC UTILITY UNDERTAKINGS

No. 452. *Directions by the Minister of Transport under Regulation* 56 *of the Defence (General) Regulations*, 1939.

No. 485. *Public Utility Undertakings (Prevention of Publications) Order*, 1941.

Electricity and water transport undertakings, and railways not controlled by the Minister, are forbidden to publish their accounts. Accounts are to be sent as usual to the Electricity Commissioners, Government Departments and local authorities concerned, and to the auditors of the undertaking, and may be inspected after seven days' notice by any person who would normally have been entitled to receive a copy or to inspect them.

PURCHASE TAX

No. 539. *Purchase Tax Regulations*, 1941.

The periods in respect of which returns must be made are March 1 to June 30, 1941, and successive periods of three months thereafter. Returns must be made within one month of the end of each quarter. Registered persons may be required to give security for the payment of tax.

(See ACCOUNTANCY, March, p. 100.)

RATIONING

No. 701. *Consumer Rationing Order*, 1941.

Rationing is applied to clothes, cloth and knitting wool. Subject to specified exceptions, coupons must be surrendered in respect of retail purchases from June 1, and of wholesale purchases from June 21 or 28. Traders must keep such accounts and records as are required by the Board of Trade.

TRADING WITH THE ENEMY

Nos. 495, 543, 613, 731. *Trading with the Enemy (Specified Areas) Orders*, 1941, *No.* 3 4, 5, 6.

Hungary, Yugoslavia, mainland Greece, and Syria and the Lebanan are to be regarded as enemy territory.

Nos. 532, 622, 741. *Trading with the Enemy (Specified Persons) (Amendment) Orders*, 1941, *Nos.* 6, 7, 8.

Previous Specified Persons Orders are revoked and a new consolidated list is given of traders in neutral countries with whom dealings are forbidden. Nos. 622 and 741 contain amendments to this list.

(See ACCOUNTANCY, May, p. 147.)

No. 765. *Trading with the Enemy (Custodian) (Amendment) Order*, 1941.

Any person liable to make payments to the Custodian

of Enemy Property must notify the Custodian in writing by June 24, 1941, or within fourteen days of the date when the money becomes payable. The Custodian may demand accounts and information, and may take action for the recovery of money due.

(See ACCOUNTANCY, November, 1939, p. 41.)

WAR DAMAGE

No. 569. *War Damage* (*Notification and Claims*) *Regulations*, 1941.

Procedure is laid down for notification of war damage to land and buidings and the presentation of claims to the War Damage Commission.

No. 588. *War Damage* (*General*) *Regulations*, 1941.

Articles becoming available as materials as the result of war damage are valued at the price which was realised or which might have been expected to be realised. The Commission has discretion to make immediate value payments where necessary. Amounts due to non-residents are subject to the Defence (Finance) Regulations.

No. 699. *War Damage* (*Business Scheme*) (*No.* 2) *Order*, 1941.

A special form of policy is provided for voluntary hospitals, and minor amendments are made in the general provisions of the business scheme.

(See ACCOUNTANCY, May, p. 147.)

WAR RISKS INSURANCE

No. 491. *War Risks* (*Commodity Insurance*) (*No.* 2) *Order*, 1941.

A form of policy is given and other regulations laid down for the commodity insurance scheme. Previous Orders dealing with these matters (1939, No. 1,731 and 1940, Nos. 273, 294, 1,131, and 1,410) are revoked.

No. 728. *War Risks* (*Commodity Insurance*) (*No.* 3) *Order*, 1941.

The premium under the commodity insurance scheme remains at the rate of $\frac{3}{8}$ per cent. per month for the three months from June 3, 1941.

(See ACCOUNTANCY, April, p. 127.)

FINANCE

The Month in the City

Revival of Investment Interest

After a subdued opening due to the loss of Crete, June has been remarkable for quite a marked revival of public interest in security markets, with even a suggestion of a timid return of the speculative spirit. This latter has manifested itself chiefly in a boomlet in the developing mines of the Far West Rand following reports of encouraging developments on the Blyvooruitzicht property. Blyvoor shares themselves show a jump of 5s. 6d. to 18s. 9d., and the upward movement has extended to the shares of associated and neighbouring mines. Even a fair number of reductions in interim dividends failed to depress the established Rand producers, and indeed throughout markets as a whole prices have been very firm over a wide front. Though the fresh upswing was touched off by the British initiative in Syria, the chief motive force of markets continues to be provided by two familiar factors: weight of money (a reinvestment demand generated by the War Loan dividend distribution and payments for requisitioned dollar stocks), together with the search for yield prompted by higher taxation. In the industrial market, the month's further recovery of almost 3 points in the *Financial News* index to very near the January peak has been the more impressive against a background of somewhat disappointing dividend declarations by important companies such as B.A.T. and Cable & Wireless.

Fresh Tap Issue Expected

Among fixed-interest stocks, some of the India loans have been a special feature on expectations—undoubtedly premature—of early redemption out of India's growing sterling funds. Elsewhere, the rise has reflected market expectations of a decline in State interest rates to yet lower levels. At times this view has found expression in rumours that 3 per cent. Local Loans, for example, may be raised to par and converted to a $2\frac{1}{2}$ per cent. basis. With the approach of the half-year end, too, the question has arisen whether the Government will not shortly be turning off the tap for the present $2\frac{1}{2}$ per cent. 1946-48 National War Bond issue (the previous series were on sale for exactly six months) and if so, on what terms they will be replaced by a new stock. Opinion is unanimous that these can and will be fixed more favourably from the Treasury's point of view, but differs as to the precise nature of the probable improvement. In some quarters it has been suggested that the nominal rate may be reduced to $2\frac{1}{4}$ or even 2 per cent., though the fact that Conversion 2 per cent. stand slightly below par is sufficient evidence that only a short-dated money market security could be placed on the latter basis. The more widely accepted view is that the rate will be left unchanged and the life of the new bond extended, possibly by as much as two years to 1948-50. If this should be done, it is clear that the present issue, with its shorter life, would appear comparatively under-valued at par. Hopes of a small premium when the issue is withdrawn have accordingly been reflected in a sudden rush of applications for these bonds, subscriptions in the week to June 24 jumping suddenly to over £27,000,000, a figure hitherto exceeded only during London's War Weapons Week.

No Change in Tax-Free Dividends

Though comparatively few preference dividends are paid free of tax, important questions of principle were raised by the question whether these should or should not be included in the Finance Bill changes affecting such payments as tax-free annuities and settlements, where the maximum rate of tax has now been fixed at the pre-war level. In deciding to exclude them, the Chancellor pointed out that the preference shares concerned, and the ordinary shares ranking after them, have been changing hands since war began with full knowledge of taxation possibilities, and he saw no reason in the public interest to upset the assumptions on which these bargains were based. This is in line with the general principle underlying, for example, the Courts (Emergency Powers) Act that contracts entered into after the outbreak of war hold good. A more fundamental reason for the decision would seem to be the extreme undesirability of interfering with any contractual obligations at all except in case of extreme hardship.

	May 27	June 26	Change
Consols $2\frac{1}{2}$%	$78\frac{13}{16}$	81	$+2\frac{13}{16}$*
Japan 5% 1907	22	29	+7
Boots Ord.	36/9	33/9	—3/-
Courtauld	30/6	29/9	—9d.
Cable & Wireless Ord. ...	65	61	— *
Br. Amer. Tob.	$4\frac{11}{32}$	$4\frac{3}{16}$	$-\frac{7}{32}$*
Blyvoor	13/3	19/3	+6/-
W. Wit. Areas	61/3	95/-	+33/9
F. N. Index of Ord. Shares	69.7	72.4	+2.7

* Allowing for dividend payments.

—Points from Published Accounts

Imperial Chemical Industries

The accounts of Imperial Chemical Industries are, of course, always noteworthy for the voluminous information they contain, but there is special cause for satisfaction that the policy of giving shareholders detailed information has been continued in respect of 1940. Obscurantism on the part of small industrial companies becomes more difficult when an undertaking which plays so large a part in the national war effort can be as frank as this. A consolidated income statement shows that the gross revenue of the group, after rising by nearly 50 per cent. in 1939, climbed from £15,343,038 to £18,374,945. Tax is, however, a much heavier charge. The nominal deduction is £7,385,474, against £3,653,883, but dividends are shown gross and the tax included in them is £2,394,393, in place of £2,001,216. Further, the profit and loss account of the parent company itself contains a note intimating that £497,000 of tax has been met from provisions made in previous years against future additional liabilities. A decline in the company's net surplus from £7,313,485 to £6,418,533 is, therefore, not the full measure of the contraction in earnings. The point has special significance because premiums of £572,615 payable under the War Damage Act, 1941, have been charged to reserve on the ground that the Act provides specifically that such premiums are of a capital nature and are not allowable as a deduction for taxation. It is true that the reserve has been increased by crediting a profit of £1,500,000 arising from the sale of the company's U.S. investments; but the majority of companies are charging the war damage contributions to revenue, and that procedure has the justification that the charge will recur over a period of years while adding nothing to capital values. Had the profit been struck after taking care of this new debit and after providing for income tax on dividends, but before crediting the transfer from tax reserve, the net figure would have shown a fall from £5,677,197 to £3,291,985. On this basis the maintained 8 per cent. dividend on the ordinary capital would have been short-earned by £349,335 instead of being covered by an apparent margin of £720,280. It has to be noted, however, that the subsidiaries have retained £145,613 of profits and that according to the chairman nearly £1,100,000 has been provided for A.R.P. and "other kinds of defence precautions and preparations."

Dunlop's Consolidated Statement

The sharp impact of wartime taxation upon company profits is strikingly exemplified in the Dunlop Rubber accounts also. Like those of Imperial Chemical Industries these relate to the calendar year 1940. Over the whole of the period the effective rate of E.P.T. was not 100 per cent. but 90 per cent. All the same the tax provision, which rose in 1939 from £386,109 to £1,527,474 (including £500,000 to tax reserve towards future liability) has advanced to £2,391,880 (including £650,000 similarly taken to tax reserve). Although the aggregate profits of the group are up from £4,154,807 to £5,022,111 the net surplus has declined from £1,325,659 to £609,975. This barely covers an ordinary payment of 10 per cent., whereas for 1939 a 12 per cent. distribution was provided with a balance to spare equivalent to another 9⅛ per cent. Study of the balance sheet suggests, however, that profits may have been determined on a conservative basis, for while £250,000 has been taken from contingencies reserve to the special reserve against interests in subsidiaries, the contingencies reserve records a net reduction of only £69,000. As increased also by a transfer of £1,000,000 from general reserve, the special reserve mentioned now has a total of £3,250,000. It compares with a book value of £14,426,196 placed on interests in subsidiaries, but the consolidated statement of assets and liabilities shows that only £2,693,861 of the group's asset total of £36,798,701 is represented by "investments in certain subsidiary and associated companies in countries abroad." This does not purport to be a valuation; it is simply a book entry mustering assets which in the normal way would have been allocated to specific headings in the consolidated statement. The preparation of this statement has for this and other wartime reasons presented difficulties, and in overcoming them the directors have upheld a very consistent policy of providing detailed particulars. But on this occasion the statement does not bear an auditors' certificate. Sir George Beharrell, the chairman, mentioned this point in discussing the accounts with a limited audience and pointed out (*a*) that there is no legal obligation to present a consolidated balance sheet and (*b*) that in existing circumstances the auditors' certificate would have been hedged around with provisos. It is a somewhat startling doctrine, even where there is no legal obligation to publish a balance sheet, that an auditors' certificate need not be called for when it is likely to be given subject to qualifications. The conditions of the case may be exceptional, but at the least the consolidated balance sheet, which is presented in the same form as in previous years, might have been prominently endorsed with a note to the effect that, in contrast to past practice, it is not a certified document.

Marks & Spencer

If only because they cover the year to March 31 last, and thus relate to a period during the whole of which E.P.T. was operating at 100 per cent., the accounts of Marks & Spencer deserve mention in these notes. After deduction of £1,519,961, against £1,165,745, for tax the net profit reveals a decline from £1,141,979 to £866,425. Here again the comparison would be more unfavourable were allowance to be made for tax deducted from dividends, which are shown gross, and it has been officially stated that £2,000,000 of the company's earnings has gone to the Imperial Exchequer, apart from over £1,000,000 collected as Purchase Tax. Comparison of this tax charge with the relatively small residuum of profit left available to the company suggests that the liability to E.P.T. has proved heavy. It has become the habit for most companies to conceal the amount of their E.P.T. payment, even where the provision for all taxation is revealed. This has the disadvantage of leaving shareholders in ignorance as to the amount of any credit that may ultimately accumulate under the promise to refund 20 per cent. of E.P.T. payments after the war (subject to deduction of income tax at the rate then ruling). And it imposes a second disability in instances where profits cannot hope to be maintained. Marks & Spencer is a case in point, for supply problems have become formidable and stocks are down from £2,234,044 to £1,999,681 even though th latest figure includes Purchase Tax. Obviously trading profits can fall quite materially before net earnings are affected, for down to the point where "standard earnings" are touched any decline is offset by a corresponding reduction in E.P.T. liability. There is here a valuable buffer between contraction in profits and reduction in dividend; but the strength of that buffer can only be gauged with any precision when the amount involved by past E.P.T. deductions is known.

Society of Incorporated Accountants

THE SOCIETY OF INCORPORATED ACCOUNTANTS IN IRELAND

The 38th annual meeting took place in Dublin recently, the President, Mr. William L. White (Cork), in the chair.

The report for the year ended March 31, 1941, showed that the number of members in Eire and in Northern Ireland is now 231, and the number of students 248.

The Society and the profession had suffered loss through the death of two members: Mr. Arthur Henry Muir, of Belfast, and Mr. John Mackie, of Dublin. Both had also been members of the Institute of Chartered Accountants in Ireland and each of them had at one time been president of that body.

Eighty-nine candidates sat for the examinations at Dublin and Belfast in 1940, of whom 48 candidates were successful. In the Preliminary Examination, Mr. S. J. Wilson, of Crumlin, Co. Antrim, obtained First Place Certificate and Prize.

The retiring members of the Council, Mr. D. Tilfourd Boyd, Mr. A. J. Walkey, Mr. R. J. Kidney, and Mr. Mervyn Bell, were unanimously re-elected, and Mr. T. Condren Flinn was reappointed Hon. Auditor. At the conclusion of the meeting Mr. R. J. Kidney proposed a vote of thanks to the President, which was carried by acclamation.

At a Council meeting held subsequently the following officers were elected for 1941-42 :—

President: Mr. William D. White, F.S.A.A. (Cork).

Vice-President: Mr. D. Tilfourd Boyd, B.Com.Sc., F.S.A.A. (Belfast).

Hon. Treasurer: Mr. R. L. Reid, F.S.A.A. (Dublin).

Hon. Secretary: Mr. A. J. Walkey, F.S.A.A. (Dublin).

PERSONAL NOTES

Mr. Thomas Johnston, M.P., Secretary of State for Scotland, has appointed a Scottish Fire Commission as sanctioned by Parliament. Amongst those appointed is Mr. John D. Imrie, M.A., B.Com., F.S.A.A., City Chamberlain, Edinburgh.

Messrs. Muir, Moody & Co., Incorporated Accountants, 288, Seven Sisters Road, Finsbury Park, London, N.4, advise that they have taken into partnership Mr. John Edward Field, A.S.A.A. The name of the firm will remain unchanged.

Messrs. Rickard & Co., Incorporated Accountants, announce that for the duration of the war they will carry on their practice at the offices of Messrs. Wilson, Bigg & Co., Chartered Accountants, 16, Coleman Street, E.C.2.

Messrs. G. W. Wheeler & Co., Incorporated Accountants, announce that the partnership between Mr. Gilbert W. Wheeler, F.S.A.A., and Mr. Wilfred A. Read, A.S.A.A., will be dissolved as from June 30. Mr. Read will continue the practice under the same firm name at 2, Tudor Street, London, E.C.4.

REMOVALS

Messrs. Charles E. Dolby & Son, Incorporated Accountants, have removed from 51, North John Street, to 10, Gambier Terrace, Hope Street, Liverpool. Their new telephone number is Royal 1128.

Messrs. Peat, Marwick, Mitchell & Co. advise that their Sheffield office is now situated at 301, Glossop Road.

We have been advised of the following changes of address occasioned by enemy action :—

Messrs. Henry J. Burgess & Co., Chartered Accountants, to 7-8, Bury Court, St. Mary Axe, London, E.C.3.

Messrs. Ernest E. Bayfield & Son, Incorporated Accountants, to College Hill Chambers, 23, College Hill, London, E.C.4.

Messrs. John A. Cook & Co., Incorporated Accountants, to 42, Gracechurch Street, London, E.C.3.

Messrs. Crane, Houghton & Crane to 117, Queen Victoria Street, London, E.C.4.

Messrs. John James & Co., Incorporated Accountants, to Oak Den, Edenbridge, Kent.

SOUTH AFRICAN BRANCHES

Eastern—Annual Meeting

The thirteenth annual general meeting of the South African (Eastern) Branch of the Society was held at Durban on April 16. Mr. A. H. Berend, Chairman, presided.

Mr. F. E. Osborn was re-elected auditor to the branch. Mr. N. E. O. Jones and Mr. G. E. Noyce were re-elected members of the committee, and Mr. J. A. Stewart was elected to fill the vacancy caused by the resignation of Mr. G. E. L. Horne.

The Chairman thanked Mr. Roger Laughton on behalf of the members for his able services as acting honorary secretary during the absence on active service of Mr. A. R. Butcher.

At a committee meeting held after the annual meeting, Mr. A. H. Berend was re-elected Chairman of the Branch.

Western—Annual Meeting

The fifteenth annual meeting of the South African (Western) Branch was held at Cape Town on May 15. The chairman, Mr. C. D. Gibson, reviewed the work of the Branch during 1940. Many members and articled clerks were on active service, and he was sure the meeting would join him in greetings to them. The total membership was now 114. The usual yearly donation of ten guineas was made to the Benevolent Fund, and Mr. Gibson commended the Fund to every member as worthy of support.

The accounts for the year were adopted. The auditor, Mr. H. J. Notcutt, and the retiring members of the committee were re-elected.

An enthusiastic vote of thanks was accorded to the chairman.

EXAMINATIONS

The Society's Examinations will be held on July 30 and 31 and August 1, 1941 at Sedbergh and at Taunton —by kind permission of the respective School Governors —for candidates in England and Wales. There will also be centres at Glasgow, Dublin, Belfast and in South Africa.

Those presenting themselves at Sedbergh or at Taunton will be accommodated in the School Houses: particulars will be furnished to each candidate, who is requested to notify the Secretary by *July* 4 at the latest whether he requires accommodation or not.

OBITUARY

GEORGE ERNEST SENDELL

The recent death of Mr. G. E. Sendell unhappily removes from the profession one of the earlier generation of members of the Institute and of the Society. Mr. Sendell commenced his career on the staff of the Official Receiver in the Eastern Counties and, at the instance of the late Mr. C. Fitch Kemp, a Past President of the Institute of Chartered Accountants, Mr. Sendell accepted a position in the office of his firm. Mr. Sendell became an Incorporated Accountant in 1890, when he passed the Society's final examination, and four years later was admitted a member of the Institute. The firm recognised his very considerable abilities and admitted him to partnership in 1901; the firm eventually became Kemp, Chatteris, Nichols, Sendell & Co. Although Mr. Sendell did not occupy any official position in the professional bodies of which he was a member, he took much interest in the affairs of the profession. We recall his presence at the second International Congress on Accounting held in Amsterdam in 1926, where he was a welcome member among the British representatives. His friends will remember his kindly thought in commemorating the memory of his wife through the Chartered Accountants Students Society and the Incorporated Accountants' Benevolent Fund. Outside his professional work he interested himself in the Foundling Hospital, of which he was a Governor.